Audit Report
Cash Receipts
Fiscal Controls

Prepared by:
CAL FIRE Office of Program Accountability

March 2010

Preface

In September 2009, the California Department of Forestry and Fire Protection (CAL FIRE) Office of Program Accountability (OPA) began an internal control audit of the Department's Cash Receipts cycle.

The Financial Integrity and State Manager's Accountability Act (FISMA) of 1983 (Government Code Sections 13400-13407) requires state agencies to review and report on the adequacy of their internal control systems every two years. In accordance with FISMA, OPA periodically conducts internal control audit activities to ensure that the Department's internal control systems are in place and operative.

We thank the Departmental Accounting Office and its staff for their assistance with this review. The information received from all of the individuals involved has helped us to assess the adequacy of the Department's internal controls over the cash receipts cycle.

This report presents the results of our review.

<u>STAFF:</u>

Anthony Favro, Chief, Office of Program Accountability
Anh Tran, Auditor
Tajinder Bassi, Auditor

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Del Walters, Director
Department of Forestry and Fire Protection
1416 Ninth Street, Suite 1505
Sacramento, California 95814

The Office of Program Accountability (OPA) has completed its audit of the accounting and administrative controls over the California Department of Forestry and Fire Protection (CAL FIRE) Cash Receipts cycle in effect as of January 2009. The audit was conducted in accordance with the *International Professional Practices Framework (IPPF)*, published by the Institute of Internal Auditors, and it included the audit tests that OPA staff considered necessary to determine that accounting and administrative controls are in place and operative.

CAL FIRE's management is responsible for establishing and maintaining adequate internal control. This responsibility, in accordance with Government Code Section 13404 et seq., includes documenting internal control, communicating requirements to employees, and assuring that internal control is functioning as prescribed. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of control procedures.

The objectives of accounting and administrative control are to provide management with reasonable, but not absolute, assurance that:

- Assets are safeguarded against loss from unauthorized use or disposition.
- Transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of reliable financial statements.
- Financial operations are conducted in accordance with policies and procedures established in the State Administrative Manual.

OPA's audit did not reveal any significant internal control problems or weaknesses that would be considered pervasive in their effects on the accounting and administrative controls over the Cash Receipts cycle.

In our opinion, CAL FIRE's accounting and administrative control over the Cash Receipts cycle, in effect as of January 2009, was sufficient to meet the objectives stated above.

Anthony P. Favro

Anthony P. Favro, Chief
Office of Program Accountability
March 19, 2010

Summary

The California Department of Forestry and Fire Protection (CAL FIRE) Office of Program Accountability (OPA) conducted an audit of the accounting and administrative controls over the Department's Cash Receipts cycle.

The audit was conducted to determine that procedures exist for collecting, safeguarding, and depositing cash receipts; that cash receipt duties are clearly defined and adequate separation of duties exists; that all cash due is received and such amounts are authorized in accordance with State laws and regulations; that cash receipt transactions are correctly recorded in the accounting records and accountability is maintained; that all written receipts are accounted for and are issued in consecutive numerical order; and that subsidiary records are reconciled with control accounts and the bank statement.

OPA's audit found that the accounting and administrative controls over the Cash Receipts cycle are in place and operating adequately.

Background

To ensure that State agency internal control systems are in place and operative, the Legislature enacted The Financial Integrity and State Manager's Accountability Act (FISMA) of 1983 (Government Code Sections 13400-13407). FISMA places the responsibility for establishing and maintaining an agency's system of internal accounting and administrative controls with the agency head. FISMA further requires each state agency to review and report on the adequacy of its internal control systems every two years.

In accordance with FISMA, OPA performs internal control audit activities to ensure that the Department's internal control systems are in place and operative. In its 2009 Audit Plan, OPA selected the Cash Receipts cycle for audit.

Government Code Section 13403 states that the elements of a satisfactory system of internal accounting and administrative controls include:

- A plan of organization that provides segregation of duties appropriate for proper safeguarding of state agency assets.
- A plan that limits access to state agency assets to authorized personnel who require these assets in the performance of their assigned duties.
- A system of authorization and recordkeeping procedures adequate to provide effective accounting control over assets, liabilities, revenues, and expenditures.
- An established system of practices to be followed in performance of duties and functions in each of the state agencies.
- Personnel of a quality commensurate with their responsibilities.
- An effective system of internal review.

Per Government Code Section 1236, OPA conducts its internal control audits in accordance with the *International Professional Practices Framework (IPPF)* issued by The Institute of Internal Auditors. OPA also adheres to the *Audit Guide for the Examination of Internal Control and Fiscal Compliance*, developed by Department of Finance.

Scope, Methodology, and Objectives

In accordance with the *International Professional Practices Framework (IPPF)*, OPA audited the accounting and administrative controls over the Cash Receipts cycle for the period of January 1, 2009, through December 31, 2009. .

In following the Department of Finance's *Audit Guide for the Examination of Internal Control and Fiscal Compliance*, OPA interviewed key personnel, completed checklists and internal control questionnaires, identified internal accounting and administrative control strengths and weaknesses, reviewed applicable laws and regulations, performed transaction testing, analyzed supporting documents, forms, and reports, and performed other audit procedures as required.

The objective of this audit was to provide CAL FIRE Management with reasonable, but not absolute, assurance that:

1. Procedures are established for collecting, safeguarding, and depositing cash receipts;

2. Cash receipt duties are clearly defined and adequate separation of duties exists;

3. All cash due is received and such amounts are authorized in accordance with State laws and regulations;

4. Cash receipt transactions are correctly recorded in the accounting records and accountability is maintained;

5. All written receipts are accounted for and are issued in consecutive numerical order; and

6. Subsidiary records are reconciled with control accounts and the bank statement.

Conclusion

OPA's audit of the accounting and administrative controls over the CAL FIRE Cash Receipts cycle did not reveal any significant internal control problems or weaknesses that would be considered pervasive in their effects on control systems in place.

In the opinion of OPA, the Department has properly supported Cash Receipts cycle transactions for the period of January 1, 2009, through December 31, 2009. The internal accounting and administrative control over the Cash Receipts cycle was sufficient to meet the objectives of assuring that assets are safeguarded against loss from unauthorized use or disposition; that transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of reliable financial statements; and that financial operations are conducted in accordance with policies and procedures established in the State Administrative Manual.

OPA did note during its review two discussion items that are included at the end of this report.

Anthony P. Favro

Anthony P. Favro, Chief
Office of Program Accountability

March 19, 2010

Discussion Item #1:

OPA noted that the Cashier's Office was not endorsing checks immediately upon receipt. Rather, the endorsements were being done after the completion of the Report of Collections (ROC). OPA noted that the ROC was usually processed the next working day.

Section 8023 of the State Administrative Manual (SAM) requires all checks, money orders, and warrants received for deposit to be endorsed for deposit as soon as possible after receipt, but no later than the end of the working day. SAM Section 8034.1 further requires agencies to endorse checks, warrants, money orders, and other negotiable instruments on the day they are received.

If a check is not immediately endorsed upon receipt, there is a risk that the check could be altered or stolen. Thus, during its exit conference with Departmental Accounting Office (DAO) management, OPA recommended that DAO's procedures be changed to ensure that the cashier endorses checks received on the day they are received.

When this audit was started, the cashier position was vacant, and DAO had redirected staff to handle the cashier responsibilities. DAO has stated that its Desk Manual for the cashier position does include the requirement that checks be endorsed on the day they are received. However, for whatever reason the redirected staff was not following that procedure. DAO has since hired a full-time cashier and has confirmed that the new cashier is following the proper procedure and endorsing all checks on the day they are received.

Discussion Item #2:

OPA noted that the Cashier's Office was date-stamping the envelopes of its daily mail, but that the envelopes were not being maintained or forwarded with the ROC to the corresponding unit. The only exception was the ROCs for the Training and Pipeline Safety Units in the State Fire Marshal's Office, which request the envelopes to be included with their returned ROCs.

SAM Section 8032.1 states that agencies are required to deposit receipts in a timely and economical manner. Although it does not specifically address date stamping, good business practice dictates that if a date stamp is being used to document receipt of an item, that date stamp should be retained.

DAO's procedure did not require the date-stamped envelopes to be maintained on file. However, if the date of receipt is not available, the Cashier's Office will not be able to furnish proof of receipt in the event of a dispute over the timeliness of its deposits. Thus, OPA recommended that DAO implement a procedure that ensures documentation and retention of the date of receipt for items received in the Cashier's Office.

DAO management agreed with this recommendation and has implemented a procedure with the new cashier to ensure that incoming items are date stamped and that the date stamp is maintained.